

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 2874

March 13, 2012

**SUMMARY OF BILL:** Authorizes local governments to hold a referendum during a regular election regarding the sale of wine at retail food stores. Defines “retail food stores” and provides that such stores do not include: roadside markets that offer fresh foods and vegetables; food and beverage vending machines, and any establishment selling only tobacco, beer, and gasoline. Creates an additional class of license allowing the sale of wine at retail food stores.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – \$614,400/One-Time/ABC Fund**  
**\$1,889,500/Recurring/ABC Fund**  
**\$8,902,800/Recurring/General Fund**  
**Increase State Expenditures – \$728,000/One-Time/ABC Fund**  
**\$1,024,700/Recurring/ABC Fund**

**Increase Local Revenue – \$7,024,900/Recurring/Permissive**  
**Increase Local Expenditures – Not Significant/Permissive**

Assumptions:

- Licenses will be issued by the Alcoholic Beverage Commission (ABC) and only to qualified food stores in jurisdictions that have approved the sale of alcoholic beverages.
- There are approximately 7,000 qualifying food stores in Tennessee. Approximately 52 percent of these are in localities that have authorized the sale of alcoholic beverages. Approximately 75 percent of non-dry jurisdictions will approve the sale of wine in qualifying food stores and 75 percent of stores in these localities will apply for the license resulting in 2,048 stores statewide authorized to sell wine (7,000 x 52% x 75% x 75%).
- Each license costs \$850 with a \$300 one-time application fee. This will result in a recurring increase in state revenue to the ABC Fund of \$1,740,800 (2,048 x \$850) and a one-time increase in state revenue to the ABC Fund of \$614,400 (2,048 x \$300).
- The ABC will need 15 additional agents to assist in regulating and investigating the new licensees. ABC will require eight new administrative clerk positions to perform administrative functions necessary for issuing new licensees.

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- Each agent would receive a salary of \$31,128 plus benefits of \$13,710 totaling \$672,570 (15 agents x \$44,838) and \$5,000 for maintenance, travel, and hotels totaling \$75,000 (15 x \$5,000). The total recurring increase in expenditures to the state ABC Fund is for these new positions are \$747,570 (\$672,570 + \$75,000). The total one-time increase in expenditures to the state ABC Fund is \$720,000 which includes \$48,000 per agent for a car, camera, rifle, and vest (15 agents x \$48,000).
- Each clerk would receive a salary of \$19,800 plus benefits of \$10,059 totaling \$238,872 (8 x \$29,859) and \$4,780 for computer access, and phones totaling \$38,240 (8 x \$4,780). The total recurring increase in expenditures to the state ABC Fund for these new positions is \$277,112 (\$238,872 + \$38,240). The total one-time increase in expenditures to the state ABC Fund is \$8,000 which includes \$1,000 per clerk for equipment (8 x \$1,000).
- The excise tax on wine, state sales tax, local sales tax, the enforcement tax on the sale of alcoholic beverages, and municipal inspection fees will be impacted by this bill.
- The provisions of the bill will result in an increase in all taxes and fees identified above; however, determining a precise estimate for such an increase is difficult due to a number of unknown factors. A conservative 33 percent increase in taxes and fees has been used for calculating the increase in revenue to state and local governments.
- According to the Department of Revenue, 9.5 million gallons, or 36,036,637,594 ml (9,519,877 x 3,785.41 ml) of wine were sold in Tennessee in 2011 with approximately \$367.7 million in total sales. The state collected approximately \$25,739,000 in sales tax revenue at a sales tax rate of seven percent.
- The average bottle of wine is 750 ml according to *The 2011 Wine Handbook* published by The Beverage Corporation.
- Approximately 48,048,850 bottles (36,036,637,594 / 750) were sold in Tennessee in 2011. The average price per bottle sold in Tennessee in 2010 was \$7.65 (\$367,700,000 / 48,048,850).
- *The 2011 Wine Handbook* reported 720.6 million gallons of wine sold in the United States in 2010. Total wine sales equaled \$26,900,000,000.
- The average price per gallon in the United States was \$37.33 (\$26,900,000,000 / 720,600,000). There are, on average, five bottles per gallon. The average national price per bottle in 2010 was \$7.47 (\$37.33 / 5).
- *The 2011 Wine Handbook* records state sales in 9 liter cases, equal to 12 bottles or approximately 2.377 gallons per case (9 / 3.785 liters).
- North Carolina allows the sale of wine in grocery stores. According to the U.S. Census Bureau, North Carolina's population is 50 percent greater than Tennessee's (9,222,000 vs. 6,214,000 in 2008).
- In 2008, North Carolina sold 6,612,980 nine liter cases while Tennessee sold 3,376,690 cases. North Carolina has 96 percent more gross sales [(6,612,980 – 3,376,000) / 3,376,000] in 2008 than Tennessee.
- In 2008, Tennessee had per capita sales of 0.54 cases (3,376,000 / 6,214,000) while North Carolina had per capita sales of 0.72 cases (6,612,000 / 9,222,000).
- On a per capita basis, North Carolina had 33 percent more sales (0.72 / 0.54) than Tennessee in 2008.

- Assuming the increased per capita wine sales in North Carolina are attributable to sale of wine in grocery stores, it is assumed that Tennessee would experience a similar per capita increase in wine sales.
- According to the Department of Revenue (DOR), collections of excise tax derived from the sale of wine are estimated to be approximately \$11,519,052 in FY11-12.
- The increase in state revenue from additional excise tax collections in jurisdictions approving the sale of wine in qualifying retail food stores is estimated to be \$2,850,965 ( $\$11,519,052 \times 75\% \times 33\%$ ).
- The state sales tax and local sales tax revenue figures are discounted by five percent to account for a reduction in the retail price of wine resulting from increased competition among retailers.
- According to DOR, collections of state sales tax derived from the sale of wine are estimated to be \$25,739,000 in FY10-11.
- The recurring increase in state sales tax revenue in jurisdictions approving the sale of wine in qualifying retail food stores is estimated to be \$6,051,882 ( $\$25,739,000 \times 75\% \times 33\% \times 95\%$ ).
- According to DOR, collections of local sales tax derived from the sale of wine are estimated to be \$8,824,800 ( $\$367,700,000 \times 2.4\%$ ). The recurring increase in local sales tax revenue in jurisdictions approving the sale of wine in qualifying stores is estimated to be \$2,074,931 ( $\$8,824,800 \times 75\% \times 33\% \times 95\%$ ).
- Current law authorizes a \$0.15 per case enforcement tax upon the sale of alcoholic beverages sold at wholesale in Tennessee. FY10-11 collections attributable to wine sales are estimated to be approximately \$600,610 [ $\$0.15 \times (48,048,850 \text{ bottles} / 12 \text{ bottles per case})$ ]. The recurring increase in state revenue associated with the enforcement tax is estimated to be \$148,651 per year ( $\$600,610 \times 75\% \times 33\%$ ). This amount is credited to the ABC Fund rather than the General Fund.
- Pursuant to Tenn. Code Ann. § 57-3-501, local governments are authorized to charge a permissive municipal inspection fee of a variable percentage (based on population) of the wholesale price of alcoholic beverages supplied by wholesalers. This fee is paid by licensed retailers within the municipality. Based upon a survey of local governments conducted by Fiscal Review Committee staff (responses from 82 out of 90 local governments that authorize the sale of alcoholic beverages), an amount estimated to exceed \$20,000,000 is collected by municipalities statewide each year. The increase to municipal inspection fee revenue is estimated to exceed \$4,950,000 ( $\$20,000,000 \times 75\% \times 33\%$ ).
- A referendum on the sale of wine in retail food stores will occur during a regularly scheduled general election.
- Public Acts 2009, Public Chapter 348 authorized a wine manufacturer or supplier licensed in Tennessee or in any other state to ship up to nine liters of wine per month and up to 27 liters per year directly to Tennessee residents. Enactment of this legislation is anticipated to divert some wine sales from liquor stores and retail food stores. If Public Chapter 348 not been enacted, the estimated increase in sales from passage of this bill would have been greater.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "Lucian D. Geise". The signature is fluid and cursive, with the first name "Lucian" written in a larger, more prominent script than the last name "Geise".

Lucian D. Geise, Executive Director

/jdb